

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6206**

**BILL NUMBER:** HB 1004

**NOTE PREPARED:** Jan 5, 2010

**BILL AMENDED:** Jan 5, 2010

**SUBJECT:** Assessed Value of Homesteads and Farmland.

**FIRST AUTHOR:** Rep. Grubb

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** \_\_\_**GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** (Amended) *Farmland:* In making the annual calculation of the base rate for the assessment of agricultural land, this bill requires the Department of Local Government Finance (DLGF) to use an adjusted six-year average that eliminates the highest and lowest values determined for the six-year period.

*Circuit Breaker:* The bill applies a property tax credit to limit property tax liability on real property based on the percent change in the annual average CPI. It excepts from eligibility for the credit taxes based on certain changes relating to the real property, taxes imposed after being approved by the voters in a referendum or local public question, and taxes payable in the first year after certain transfers of title.

**Effective Date:** January 1, 2011.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Farmland:* Under current law, the assessed value of real property is adjusted each year to reflect market changes. Each year, the base rate for agricultural land is set by the DLGF, based on a six-year rolling average of the capitalization of net cash rents and net operating income for farmland. Beginning with taxes payable in 2011 under this bill, both the high and low years in the six-year average would be dropped.

The base value per acre of farmland is \$1,250 for taxes payable in 2010, and is currently estimated at \$1,400 for 2011, \$1,690 for 2012, and \$1,650 for 2013. Under this proposal, the base rate would be \$1,400 for 2011 (no change), \$1,600 for 2012, and \$1,520 for 2013.

The reduction in the farmland base rate in this proposal would result in a smaller tax base than under current law. This would lead to a higher tax rate. The statewide average tax rate per \$100 AV would increase by an estimated \$0.0092 in 2012 and \$0.0126 in 2013.

*Circuit Breaker:* Beginning with taxes payable in 2010 under this provision, an additional circuit breaker credit would be granted to real property taxpayers if the annual growth in net tax bills would otherwise exceed the previous year's growth in the Consumer Price Index (CPI). The portion of a tax bill devoted to a referendum-approved levy would not be subject to the CPI-based growth cap. Tax bills for properties that have changed title (other than death of a spouse or other co-owner, or in a case of divorce) would not be subject to the CPI-based growth cap in the year that title is passed. For these properties, the tax in the year that title passes becomes the new base for future CPI-based growth cap calculations.

The annual change in CPI is currently estimated at -1.36% for 2009 (2010 tax bills), +1.55% in 2010 (2011 tax bills), +2.12% in 2011 (2012 tax bills), and +2.31% in 2012 (2013 tax bills).

Statewide, net property taxes would be lower under this bill than under current law for all real property types. The CPI growth caps would cause a reduction in TIF proceeds, but the tax rate increases beginning in 2012 would increase overall TIF dollars. Results would vary by TIF district. Circuit breaker credits would increase each year. The table below contains estimates of these changes.

Estimated Net Property Tax and Circuit Breaker Changes								
Net Tax by Property Type	2010		2011		2012		2013	
Homesteads	-63.4 M	-3.6%	-100.3 M	-5.5%	-81.4 M	-4.5%	-96.6 M	-5.1%
Farmland	-18.4 M	-7.3%	-39.2 M	-14.2%	-76.8 M	-24.1%	-61.0 M	-19.8%
Other Residential	-21.0 M	-2.7%	-19.3 M	-2.5%	-17.3 M	-2.2%	-19.8 M	-2.5%
Commercial Apartments	-5.3 M	-2.2%	-4.9 M	-2.1%	-4.5 M	-1.9%	-4.2 M	-1.8%
Ag_Business (Ex. Farmland)	-6.2 M	-5.7%	-5.1 M	-4.8%	-3.6 M	-3.4%	-3.0 M	-2.9%
Other Real Property	-47.0 M	-2.6%	-39.2 M	-2.2%	-29.9 M	-1.7%	-24.7 M	-1.4%
Personal	-0-	-0-	-0-	-0-	+2.3 M	+0.3%	+3.3 M	+0.4%
<b>TIF Proceeds</b>	-3.1 M	-0.7%	-1.5 M	-0.3%	+0.2 M	+0.0 %	+0.7 M	+0.2%
<b>Circuit Breakers</b>	+161.3 M	+35.3 %	+208.0 M	+43.6 %	+211.6 M	+46.5 %	+206.2 M	+48.3 %

**State Agencies Affected:** DLGF.

**Local Agencies Affected:** County assessors; Local taxing units impacted by circuit breaker credits.

**Information Sources:** *Consumer Price Index, All Urban* historic series and forecast series, Global Insight;  
*Farmland Assessment For Property Taxes*, Larry DeBoer, Purdue University,  
[http://www.agecon.purdue.edu/crd/localgov/Topics/Essays/Prop\\_Tax\\_FarmLand\\_Asmt.htm](http://www.agecon.purdue.edu/crd/localgov/Topics/Essays/Prop_Tax_FarmLand_Asmt.htm).

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.